

## Message Text

CONFIDENTIAL

PAGE 01 CARACA 01818 241643Z  
ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03 PA-01  
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 /092 W  
-----020049 250721Z /10

R 241550Z FEB 78  
FM AMEMBASSY CARACAS  
TO SECSTATE WASHDC 1312

CONFIDENTIAL CARACAS 1818

E.O. 11652: GDS  
TAGS: EFIN,VE  
SUBJECT: FOREIGN BORROWING -IS THE HONEYMOON OVER?

1. DURING THE LAST FIFTEEN MONTHS, THE GOVERNMENT OF VENEZUELA HAS SUCCESSFULLY NEGOTIATED LOANS TOTALLING MORE THAN \$4 BILLION WITH VARIOUS INTERNATIONAL BANKING CONSORTIA. MOST OF THESE LOANS HAVE BEEN ON VERY FAVORABLE TERMS INDEED; TYPICALLY, THE TERMS OF THE LOAN AGREEMENT HAVE PROVIDED FOR AN INTEREST RATE OF ONE PERCENT OVER LIBOR OR LESS, WITH A TERM OF 7-10 YEARS AND A GRACE PERIOD FOR PRINCIPAL REPAYMENTS OF 2-3 YEARS. THE LAST MAJOR LOAN, FOR \$1.2 BILLION, BORROWED FROM A BANKING CONSORTIUM HEADED BY MANUFACTURERS HANOVER TRUST, CARRIED AN INTEREST RATE OF 3/4 PERCENT OVER LIBOR AND A TERM OF TEN YEARS.

2. BASED ON OUR DISCUSSIONS WITH LOCAL REPRESENTATIVES OF FOREIGN BANKS, THE TIME WHEN VENEZUELA COULD COMMAND THE MOST FAVORABLE TERMS AVAILABLE TO ANYONE MAY BE COMING TO AN END. FOR EXAMPLE, THE \$1.2 BILLION LOAN SIGNED IN FEBRUARY OF THIS YEAR DIDN'T DO SO WELL. MANUFACTURERS HANOVER TRUST AND THE OTHER 13 LEAD BANKS HAD TO TAKE \$1 BILLION OF THE \$1.2 BILLION TOTAL, PLACING ONLY \$200 MILLION WITH OTHER BANKING INSTITUTIONS.

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PAGE 02 CARACA 01818 241643Z

3. THERE ARE A NUMBER OF REASONS FOR THIS, SOME OF WHICH ARE NOT REFLECTIVE OF VENEZUELA'S ECONOMIC SITUATION OR CREDITWORTHINESS. FOR FOREIGN BANKERS HERE STILL CONSIDER VENEZUELA TO BE ONE OF THE MORE CREDITWORTHY BORROWERS IN THE WORLD, IN SPITE OF GROWING ECONOMIC PROBLEMS. MOST BANKERS WITH WHOM WE HAVE TALKED INDICATE THEY WOULD BE WILLING TO LEND MORE TO THE GOV,

BUT ONLY AT HIGHER INTEREST RATES AND/OR SHORTER TERMS. NEVERTHELESS, AMERICAN BANKS, TRADITIONALLY VENEZUELA'S MAJOR SOURCE OF FOREIGN CREDIT, ARE APPROACHING COUNTRY LIMITS DICTATED BY COMPANY POLICY AND/OR US LAW. GIVEN THAT VENEZUELA WILL PROBABLY BORROW \$3-4 BILLION DURING 1978, THE BANKERS EXPECT THE COST OF LOANS TO INCREASE SIGNIFICANTLY AND APPEAR TO BE HOLDING OFF UNTIL THE TERMS IMPROVE. ONE ASPECT OF THE PROBLEM, THEREFORE, IS SIMPLY INCREASING MARKET RESISTANCE TO THE RATE OF GOV BORROWING.

4. THE PROBLEM IS COMPOUNDED, OF COURSE, BY INCREASING DOUBTS ENGENDERED BY DEVELOPING ECONOMIC PROBLEMS SUCH AS BALANCE OF PAYMENTS PROBLEMS AND INFLATION. WHILE NO ONE DOUBTS VENEZUELA WILL HAVE THE MEANS TO SERVICE IT DEBTS ("GOVERNMENTS NEARLY ALWAYS PAY THEIR DEBTS SOMEHOW"), IT IS CLEAR TO ALL THAT VENEZUELA IS NO LONGER IN A CATEGORY OF BORROWER SUPERIOR TO ALMOST EVERYONE ELSE. THE CONVENTIONAL WISDOM, THEREFORE, IS THAT VENEZUELA SHOULD PAY MORE FOR LONAS. THIS IS THE KIND OF PROPHECY WHICH BECOMES SELF-FULFILLING. BANKERS EXPECT THAT VENEZUELA WILL HAVE TO PAY MORE; THEY REJECT LESS PROFITABLE REPUBLIC OF VENEZUELA PAPER IN FAVOR OF OTHER ALTERNATIVES, THEREBY FORCING THE GOV TO AGREE TO HIGHER RATES OF INTEREST. THE CURRENT DECLINE IN OIL REVENUES, EVEN IF TEMPORARY, SHOULD HASTEN THE PROCESS. NONETHELESS, ACCORDING TO FOREIGN BANKING SOURCES HERE, THE GOV

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PAGE 03 CARACA 01818 241643Z

SHOULD HAVE NO DIFFICULTY BORROWING ALL IT EXPECTS TO BORROW IN 1978 IF IT IS WILLING TO PAY THE PRICE.

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## Message Attributes

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**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Decaption Date:** 20 Mar 2014  
**Decaption Note:** 25 YEAR REVIEW  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
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**Review Markings:**  
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